**WASHINGTON, DC** – U.S. Representatives Joe Courtney (D-CT) and Tom Cole (R-OK) today sent a letter to the Super Committee urging its members to oppose new taxes on employer-sponsored health benefits. The bipartisan letter, which is signed by 160 members, asks the Committee not to cap or phase out the tax exemption for employer-sponsored health coverage. Eliminating the tax exemption for employer-sponsored care would expose the benefits to taxation for the first time in more than six decades.

Eliminating the tax exemption would likely reduce health care coverage for millions of Americans and would increase long-term federal spending obligations, driving millions out of their existing coverage into federally subsidized coverage.

The full text of the letter is below.

November 4, 2011

Honorable Patty Murray Honorable Jeb Hensarling
U.S. Senate U.S. House of Representatives

Honorable Max Baucus Honorable Dave Camp
U.S. Senate U.S. House of Representatives

Honorable John Kerry Honorable Fred Upton
U.S. Senate U.S. House of Representatives

Honorable Jon Kyl Honorable James Clyburn
U.S. Senate U.S. House of Representatives

Honorable Rob Portman Honorable Chris Van Hollen
U.S. Senate U.S. House of Representatives

Honorable Patrick Toomey Honorable Xavier Becerra

U.S. Senate U.S. House of Representatives

Dear Co-Chairs and Members:

We write today to raise concerns about imposing new taxes on health benefits as part of debt reduction proposals. Efforts to cap or to eliminate these tax exclusions would have far reaching consequences that would not only reduce health coverage for millions of Americans, but would also increase long-term federal spending obligations. Considering these consequences would negate federal tax income generated from the change and would have little impact on reducing our federal debt, we would encourage you to reject proposals to scale back or eliminate tax exclusions for employer-sponsored health coverage.

Since World War II, employer-sponsored health coverage has been exempt from taxable income. These tax exclusions have shaped our nation's system of health coverage and today, almost two-thirds of non-elderly Americans and half of our population obtain health insurance through their employers. Considering the tax exclusion is the lynchpin of this framework, capping or eliminating it would erode our largest system of health coverage and incentivize employers to drop or to curtail coverage. For their workforce, substitute coverage would only be available through the individual market, where comparable coverage is more expensive for most consumers– even as new options become available under the Affordable Care Act. And, due to the realities in our insurance system, the change would impact more vulnerable demographics of working Americans to a greater degree than others.

Despite claims that premiums are based only on the benefits provided, longstanding actuarial practices confirm that factors largely outside of one's personal control have a great impact on health plan costs. A study on the high-cost health plan tax conducted by the American Academy of Actuaries concluded that the proposal would disproportionately impact early retirees by a striking margin, not because their plans are more generous, but because they are actuarially more expensive to cover. The report also concluded that small businesses and high-risk professions would also be disproportionately impacted, again, not based on generosity of benefits, but because of longstanding actuarial realities.

Another report produced by Mercer found significant geographic and demographic components to the cost of employer-sponsored plans. An average employer-sponsored plan in the Northeast is approximately 23 percent more expensive than in the South. In firms where the average employee age is 45 or older, coverage is seven percent more expensive than the average employer-sponsored plan. Capping or eliminating this tax exclusion, would have the greatest consequences on our older workforce, those in high-cost regions, in high-risk fields, for women, and on small businesses.

Erosion of employer-sponsored health plans would also dissolve savings that have been built into this system of coverage. Employer-sponsored coverage is generally less costly than individual coverage because firms are able to capitalize on lower administrative costs associated with economies of scale. Employers have also been able to drive costs savings through health management plans.  If the tax exclusion were to be eliminated, savings that employer's plans generate from economies of scale and adoption of health management plans would diminish as they drop coverage.

Not only would these savings be dissolved, but more employees would be forced onto Exchanges and to Medicaid. The CBO estimates that a majority of employers will continue to offer coverage in light of the changes from the Affordable Care Act; however, this projection hinges on, in part, the tax exclusion for employer-sponsored coverage.  The CBO estimates that federal spending on Exchange subsidies will total $777 billion between 2012 and 2021.This estimate will explode, and far outweigh federal revenue gained if this tax treatment is eliminated.

We all agree that thoughtful changes need to be made to reduce our national debt.  However, eliminating tax exclusions for employer-sponsored coverage, as some have suggested, would create consequences that would exceed gains in revenue.  Insecurity created by destabilizing our largest system of health coverage would also have clear costs and we ask that you consider these challenges when considering debt reduction proposals.

Thank you for taking these recommendations into consideration and please do not hesitate to contact us if you have any follow up questions.

Sincerely,

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